By ROBERT P. PARKER

A Preview of the Comprehensive Revision of the National Income and Product Accounts: Definitional and Classificational Changes

IN November, the Bureau of Economic Analysis (BEA) will release the results of a comprehensive—that is, benchmark—revision of the national income and product accounts (NIPA's). This revision is the ninth of its kind; the last such revision was released in December 1985.

Comprehensive revisions differ from annual NIPA revisions because of the scope of the changes incorporated and because of the number of years subject to revision. Comprehensive revisions incorporate three kinds of changes: Definitional and classificational changes, statistical changes, and new and redesigned tables.

Definitional and classificational changes update the accounts to reflect the evolving U.S. economy; they are usually made in a comprehensive revision so that the estimates can be revised back to produce consistent time series. In the upcoming comprehensive revision, the definitional and classificational changes will mainly represent efforts to deal with the effects of the changing nature of government programs, the increasing importance of international transactions, and the nature of business incomes and expenses as they affect current production.

Statistical changes update the estimates to reflect the incorporation of newly available and revised data from regularly used sources and new methodologies—that is, new source data and new estimating procedures. In the upcoming revision, data will be incorporated from sources such as the 1982 benchmark input-output tables, the 1987 Economic Censuses, and several annual surveys for 1989 and 1990; several new methodologies will be introduced to cope with difficult measurement problems and to reflect changes in the availability and quality of source data. In addition, the base period for the calculation of constant-dollar estimates and of the associated price indexes will be shifted from 1982 to 1987, and the industry distributions of GNP and its components will be shifted from the 1972 to the 1987 Standard Industrial Classification.

New and redesigned tables update the presentation of the NIPA's to reflect the definitional, classificational, and statistical changes and to make the tables more informative. In the upcoming revision, the most important changes will entail a focus on gross domestic product (GDP), the appropriate measure of U.S. production for many types of analysis, and the presentation of alternative constant-dollar estimates and related price indexes.[1]

This article describes the definitional and classificational changes. Subsequent articles will describe the statistical changes, the new and redesigned tables, and other aspects of the revision.

The definitional and classificational changes to be incorporated in this comprehensive revision can be grouped into the following four types: Classification of government agencies, treatment of government receipts, treatment of international transactions, and treatment of business incomes and expenses. For each change, table 1 shows the aggregates and components from the current NIPA five-account system that will be affected and the initial year of revision. The following paragraphs briefly describe each change, the reason for the change, and the effects of the change on NIPA aggregates and components. Except as noted, the changes that affect GNP will affect GDP in the same way.

Classification of government agencies

Nine Federal Government agencies will be reclassified from their current designations as government enterprises or as general government agencies.[2] These changes resulted from a reexamination of government agencies that sell goods or services to the public. The revisions resulting from each of these changes will be carried back to the year each agency was established.

Reclassification of six agencies as general government agencies.—The Commodity Credit Corporation (CCC), the Pension Benefit Guaranty Corporation (PBGC), the Federal Home Loan Bank Board Revolving Fund (FHLBBRF), the Credit Union Share Insurance Fund (CUSIF), and the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) and their successors will be reclassified from government enterprises to general government agencies. For the PBGC, the changed treatment will also include the creation of a social insurance fund

In this comprehensive revision of the national income and product accounts, most current-dollar series will be revised from the present back to 1978, and many will be revised back to earlier years. The series that are affected by definitional, classificational, and statistical changes will be revised back to 1929 or to the earliest appropriate year. All constant-dollar series will be revised back to 1929 to reflect the shift in the base period from 1982 to 1987. In November, the revised estimates back to 1959, along with the "preliminary" estimates for the third quarter of 1991, will be released. The revised estimates for 1929–58 will be available in early 1992.

1. GDP is the market value of goods and services produced within the boundaries of the United States. See "Gross Domestic Product as a Measure of U.S. Production" in the August 1991 SURVEY OF CURRENT BUSINESS for a discussion of the differences between GNP and GDP.

2. Government enterprises are government agencies that cover a substantial proportion of their operating expenses by selling goods and services to the public and that maintain their own separate accounts. For a discussion of government enterprises and their treatment in the NIPA's, see U.S. Department of Commerce, Bureau of Economic Analysis, *Government Transactions*, Methodology Paper Series MP-5 (Washington, DC: U.S. Government Printing Office, November 1988): 6–8. All other government agencies are general government agencies.

to record employer contributions to the PBGC and payouts of pensions by the PBGC.

For the deposit insurance agencies—the FSLIC, FDIC, and CUSIF—and for the FHLBBRF, the change recognizes that the operating expenses of these agencies are now primarily asset transfers, a type of financial transaction that is excluded from the NIPA's.[3] For the CCC, the change recognizes that the CCC's revenues do not cover a substantial proportion of its expenses. For the PBGC, the change conforms its treatment to that of similar programs, such as workers' compensation and unemployment insurance.

These reclassifications will raise government purchases, and thus GNP, by the amount of the agencies' operating expenses—that is, by their payments for employee compensation, other services, and goods. (Their purchases of equipment and structures, as well as their inventory change, will continue to be treated in the NIPA's as government purchases.)

Charges against GNP will also be raised by the amount of the agencies' operating expenses: The current surplus of the agencies—that is, operating revenue less operating expenses—will be excluded, but their current operating revenue will be added back. For the PBGC, this operating revenue will be added into employer contributions for social insurance; for the other agencies, it will be added into indirect business nontaxes. As a result of the change in the PBGC, pension benefits paid to persons by the PBGC will be reclassified from business transfer payments to Federal transfer payments. This reclassification will not affect personal income, which includes both of these types of transfer payments.

Reclassification of one agency as a foreign entity.—The Panama Canal Commission (established in 1979 as a result of a treaty between the United States and Panama) will be reclassified from a government enterprise to a foreign entity. As such, only the Commission's contributions to social insurance funds on behalf of its employees will be included in the NIPA's. (The contributions to social insurance funds will be recorded as transfer payments from foreigners to the Federal Government.) GNP will be reduced by the amount of the Commission's purchases of equipment and structures, and charges against GNP will be reduced by the amount of the Commission's compensation payments and its current surplus. The surplus or deficit of the Federal Government will be affected by the removal of the current surplus, net of contributions to social insurance funds, and the removal of the purchases of equipment and structures.

Reclassification of two agencies as government enterprises.—The National Flood Insurance Fund and the Federal Crop Insurance Corporation Fund will be reclassified from general government agencies to government enterprises.[4]

The change recognizes that both of these nondeposit insurance agencies meet the NIPA criteria for government enterprises. These reclassifications will reduce government purchases, and thus GNP, by the agencies' current surplus. Currently, the operating expenses of these agencies are classified as government purchases, and their current operating revenues are classified as government sales. (In the NIPA's, government sales are treated as a deduction from government purchases.) Charges against GNP will also be reduced by the amount of the agencies' current surplus.

Treatment of government receipts

Redefine government sales and personal nontaxes.—Back to 1929, receipts for certain services provided by government—largely health and hospital charges, tuition, and park and recreation charges—will be redefined as government sales, which are treated as deductions from government purchases; expenditures by persons for these services will be added to personal consumption expenditures (PCE). Currently, the costs of providing these services are included in government purchases, and receipts for these services are treated as personal nontaxes.

The change in treatment will expand the definition of government sales to cover all receipts by government for the types of goods and services that are similar to those provided by the private sector. Thus, it will eliminate the distinction currently made in the NIPA's between government receipts for the types of goods or services that are also provided by nonprofit institutions (currently classified as nontaxes) and government receipts for the types of goods or services that are also provided by for-profit institutions (currently classified as sales). In addition, nontaxes will be limited to government receipts for goods or services that are administrative or regulatory in nature.

This change will reduce government purchases—both State and local and Federal nondefense—by the amount of the receipts from these services. (Government purchases will continue to include the cost of providing these services.) The change will increase PCE by the amount of purchases of these services by persons. (Purchases of these services by foreigners are already included in exports, and those by governments in Federal, State, and local government purchases.) GNP will be reduced by the amount of these purchases made by domestic business—mainly for tuition payments by private employers to State universities for employee training. Charges against GNP will not be affected, because the receipts from business and foreigners are currently treated as personal nontaxes, not as business nontaxes. (Business incomes are properly stated because the payments are deducted as expenses.) All payments for these types of services will be removed from personal nontaxes, thus increasing disposable personal income (DPI) by that amount. PCE, a component of personal outlays, will be increased only by the amount attributable to purchases by persons. Personal saving will be raised by the difference between the increase in DPI and the increase in PCE. The government surplus or deficit will not be affected, because personal nontaxes and government purchases each will be reduced by the same amount.

Recognize interest paid by persons to government.—Back to 1946, interest payments on government loans to persons, largely loans for education, will be attributed to them. This change will recognize the existence of direct government loans to persons and will expand the interest component of per-

3. For additional information on the transactions of Federal deposit insurance agencies, see "NIPA Treatment of the 'Bailout' of Thrift Institutions," SURVEY 69 (December 1989): 2-4.

4. The National Flood Insurance Fund, which was created in 1969, provides flood insurance to property owners in communities that enact and enforce appropriate flood plain management measures. The Federal Crop Insurance Corporation, which was created in 1938, provides insurance for agricultural producers to protect against losses caused by natural hazards. Although this enterprise was created in 1938, separate data on income and expenses are available only back to 1949, so the revision will be carried back to 1949.

sonal outlays, which is currently limited to interest paid by persons to business, to include these payments. The same amount will also be added to personal interest income, thus raising total personal income.[5] Because personal income and personal outlays will be increased by the same amount, personal saving will not be affected. (Receipts of interest payments by persons are currently recorded as government interest receipts.)

Recognize court-mandated escrow accounts.—Back to 1977, payments into escrow accounts that are mandated by Federal courts in anticipation of future settlements arising from proceedings related to alleged violations of government regulations (such as oil price controls) will be treated in the NIPA's as Federal Government receipts and recorded as indirect business nontaxes. Withdrawals from these escrow accounts that represent payments to business will be recorded as reductions in these nontaxes; withdrawals that represent payments to State and local governments will be recorded as increases in grants-in-aid. Currently, business incomes are reduced by the amount of payments into the escrow accounts and are increased by the amount of payments from these accounts; no transactions are recorded in the NIPA government accounts. The change in treatment, which will recognize the existence of court-mandated escrow accounts as part of the government accounts, will affect the government surplus or deficit, both when new escrow accounts are established and when withdrawals are made.

Treatment of international transactions

Reclassify interest paid by the Federal Government to foreigners as an import.—Back to 1929, the payment of interest by the Federal Government to foreigners will be treated in the NIPA's as an import of factor income. Currently, these payments are excluded from imports and GNP as well as from net interest and charges against GNP, are included in government expenditures in the calculation of the government surplus, and are included in payments to foreigners in the calculation of net foreign investment.

The reclassification will reverse one part of a decision, made in the comprehensive revision released in January 1976, that removed these interest payments from imports and from government purchases. Interest paid to foreigners by government will be treated as a payment of factor income; interest payments by government will continue to be excluded from government purchases. This change also will eliminate a major difference between net exports in the NIPA's and the balance on goods, services, and income in BEA's balance of payments accounts.

The change will increase imports and thus reduce net exports and GNP; charges against GNP and net interest will be reduced by the same amount. Because the interest payments are classified as factor income, GDP will not be affected. The government surplus and net foreign investment also will not be affected. The revised estimates of net interest from the rest of the world, which enter both net exports and net interest, will be calculated as the difference between total interest paid by foreigners and total interest received by foreigners. Currently, only interest received from business is subtracted in the calculation of rest-of-the-world net interest.

Record nonresident taxes as transfer payments.—Back to 1959, the treatment of taxes paid by residents of one country to the government of another country will be changed. Taxes paid by U.S. residents to foreign governments will be recorded as business or as personal transfer payments to foreigners, and taxes paid by foreigners to the U.S. Government will be reclassified as foreign transfer payments to the U.S. Government. Factor income receipts (exports) and payments (imports) will be recorded gross of these taxes. Currently, taxes paid by U.S. residents to foreign governments are not recognized, and taxes paid by foreigners to the U.S. Government are recorded as personal taxes paid by U.S residents. Several components of both receipts and payments of factor incomes are recorded net of nonresident taxes.

The change will increase both exports and imports for all years; the effect on net exports, GNP, and charges against GNP will depend upon the relative size of these increases. GDP will not be affected, because it excludes net exports of factor income. Four components of charges against GNP—compensation of employees, net interest, corporate profits, and business transfer payments—will be affected by the revision. Compensation of employees will be reduced because taxes will be added only to compensation paid to non-U.S. residents (which is subtracted in deriving total compensation). For net interest, taxes will be added both to interest payments to non-U.S. residents and to interest receipts by U.S. residents. Corporate profits will be affected in two ways. First, it will be reduced by the taxes paid directly by domestic corporations to foreign governments. Currently, these foreign taxes are reported as part of the foreign tax credit and not as a deduction from income. Second, the rest-of-the-world component of corporate profits, which includes net dividends, will be affected because all dividends will be recorded gross of taxes. Business transfer payments will be increased by the amount of all taxes paid directly by domestic corporations to foreign governments—that is, by the same amount that corporate profits will be reduced by treating these taxes as expenses.

Personal income will be affected by the revisions to compensation (wage and salary disbursements), net interest (personal interest income), and corporate profits (personal dividend income). Personal taxes will be reduced because taxes paid by non-U.S. residents to the U.S. Government will be removed. Personal transfers to foreigners, a part of personal outlays, will be increased to include taxes paid by U.S. persons to foreign governments. The effect on personal saving will depend on the relative size of these changes. The government surplus or deficit will not be affected, because the taxes paid by non-U.S. residents will be reclassified from personal taxes, which are recorded as government receipts, to transfer payments by foreigners to the U.S. Government, which are recorded as an offset to government expenditures.

Record exports and imports of services and interest between affiliated foreigners on a gross basis.—Back to 1974, payments for services provided and for interest paid by U.S. direct investors to their foreign affiliates will be recorded

Text continues on p. 30.

5. Personal interest income is derived as a residual—as the difference between interest paid by business, persons, government, and the rest of the world and interest received by business, government, and the rest of the world. Therefore, because interest received by government already includes interest paid by persons, the additional amount will appear in interest received by persons.

Table 1.—Summary National Income and Product Accounts:

[Year shown is initial]

Line		Commodity Credit Corporation	Federal Deposit Insurance Corporation	Federal Savings and Loan Insurance Corporation	Federal Home Loan Bank Board Revolving Fund	Credit Union Share Insurance Fund	Pension Benefit Guaranty Corporation	Panama Canal Commission	Federal Crop Insurance Corporation Fund	National Flood Insurance Fund
		Classification of government agencies								
		Account 1.—National Income and Product Account								
1	Compensation of employees	—	—	—	—	—	1974	1979	—	—
2	Wages and salaries	—	—	—	—	—	—	1979	—	—
3	Supplements to wages and salaries	—	—	—	—	—	1974	1979	—	—
4	Employer contributions for social insurance	—	—	—	—	—	1974	1979	—	—
5	Other labor income	—	—	—	—	—	—	1979	—	—
6	Proprietors' income with IVA and CCAdj	—	—	—	—	—	—	—	—	—
7	Farm	—	—	—	—	—	—	—	—	—
8	Nonfarm	—	—	—	—	—	—	—	—	—
9	Rental income of persons with CCAdj	—	—	—	—	—	—	—	—	—
10	Corporate profits with IVA and CCAdj	—	—	—	—	—	—	—	—	—
11	Profits before tax	—	—	—	—	—	—	—	—	—
12	Profits tax liability	—	—	—	—	—	—	—	—	—
13	Profits after tax	—	—	—	—	—	—	—	—	—
14	Dividends	—	—	—	—	—	—	—	—	—
15	Undistributed profits	—	—	—	—	—	—	—	—	—
16	IVA	—	—	—	—	—	—	—	—	—
17	CCAdj	—	—	—	—	—	—	—	—	—
18	Net interest	—	—	—	—	—	—	—	—	—
19	National income	—	—	—	—	—	1974	1979	—	—
20	Business transfer payments	—	—	—	—	—	1974	—	—	—
21	Indirect business tax and nontax liability	1933	1933	1933	1947	1971	—	—	—	—
22	*Less:* Subsidies less current surplus of government enterprises	1933	1933	1933	1947	1971	1974	1979	1949	1969
23	Charges against net national product	1933	1933	1933	1947	1971	1974	1979	1949	1969
24	Capital consumption allowances with CCAdj	—	—	—	—	—	—	—	—	—
25	CHARGES AGAINST GROSS NATIONAL PRODUCT	1933	1933	1933	1947	1971	1974	1979	1949	1969
26	Personal consumption expenditures	—	—	—	—	—	—	—	—	—
27	Durable goods	—	—	—	—	—	—	—	—	—
28	Nondurable goods	—	—	—	—	—	—	—	—	—
29	Services	—	—	—	—	—	—	—	—	—
30	Gross private domestic investment	—	—	—	—	—	—	—	—	—
31	Fixed investment	—	—	—	—	—	—	—	—	—
32	Nonresidential	—	—	—	—	—	—	—	—	—
33	Structures	—	—	—	—	—	—	—	—	—
34	Producers' durable equipment	—	—	—	—	—	—	—	—	—
35	Residential	—	—	—	—	—	—	—	—	—
36	Change in business inventories	—	—	—	—	—	—	—	—	—
37	Net exports of goods and services	—	—	—	—	—	—	—	—	—
38	Exports	—	—	—	—	—	—	—	—	—
39	Imports	—	—	—	—	—	—	—	—	—
40	Government purchases of goods and services	1933	1933	1933	1947	1971	1974	1979	1949	1969
41	Federal	1933	1933	1933	1947	1971	1974	1979	1949	1969
42	National defense	—	—	—	—	—	—	—	—	—
43	Nondefense	1933	1933	1933	1947	1971	1974	1979	1949	1969
44	State and local	—	—	—	—	—	—	—	—	—
45	GROSS NATIONAL PRODUCT	1933	1933	1933	1947	1971	1974	1979	1949	1969
		Account 2.—Personal Income and Outlay Account								
46	Wage and salary disbursements	—	—	—	—	—	—	1979	—	—
47	Other labor income	—	—	—	—	—	—	1979	—	—
48	Proprietors' income with IVA and CCAdj	—	—	—	—	—	—	—	—	—
49	Farm	—	—	—	—	—	—	—	—	—
50	Nonfarm	—	—	—	—	—	—	—	—	—
51	Rental income of persons with CCAdj	—	—	—	—	—	—	—	—	—
52	Personal dividend income	—	—	—	—	—	—	—	—	—
53	Dividends	—	—	—	—	—	—	—	—	—
54	*Less:* Dividends received by government	—	—	—	—	—	—	—	—	—
55	Personal interest income	—	—	—	—	—	—	—	—	—
56	Net interest	—	—	—	—	—	—	—	—	—
57	Interest paid by government [1]	—	—	—	—	—	—	—	—	—
58	*Less:* Interest received by government	—	—	—	—	—	—	—	—	—
59	Interest paid by persons [2]	—	—	—	—	—	—	—	—	—
60	Transfer payments to persons	—	—	—	—	—	—	—	—	—
61	From business	—	—	—	—	—	1974	—	—	—
62	From government	—	—	—	—	—	1974	—	—	—
63	*Less:* Personal contributions for social insurance	—	—	—	—	—	1979	—	—	—
64	PERSONAL INCOME	—	—	—	—	—	1974	1979	—	—
65	Personal tax and nontax payments	—	—	—	—	—	—	—	—	—
66	Personal outlays	—	—	—	—	—	—	—	—	—
67	Personal consumption expenditures	—	—	—	—	—	—	—	—	—
68	Interest paid by persons [2]	—	—	—	—	—	—	—	—	—
69	Personal transfer payments to foreigners (net)	—	—	—	—	—	—	—	—	—
70	Personal saving	—	—	—	—	—	1974	1979	—	—
71	PERSONAL TAXES, OUTLAYS, AND SAVING	—	—	—	—	—	1974	1979	—	—

See notes at end of table.

Items Affected by Definitional and Classificational Revisions
[year of revision]

Treatment of government receipts			Treatment of international transactions			Treatment of business incomes and expenses							
Redefine government sales and personal nontaxes	Recognize interest paid by persons to government	Recognize court-mandated escrow accounts	Reclassify interest paid by Federal Government to foreigners	Record nonresident taxes as transfer payments	Record exports and imports of services and interest on a gross basis	Reclassify CCC commodity loans	Reclassify bad debt losses as financial transactions	Reclassify capital gains distributions	Remove capital gains from brokerage charges	Capitalize monetary interest on own-account construction	Recognize capital consumption for abandoned nuclear power plants	Recognize personal-injury awards as corporate business	Line
Account 1.—National Income and Product Account													
				1959									1
				1959									2
													3
													4
													5
						1933	1929						6
						1933	1929						7
							1929						8
							1929						9
				1959			1929		1929	1958	1978	1987	10
				1959			1929		1929	1958		1987	11
													12
				1959			1929		1929	1958		1987	13
				1959				1940					14
				1959			1929	1940	1929	1958		1987	15
													16
										1958	1978		17
			1929	1959			1929	1940	1929				18
			1929	1959		1933	1929	1940	1929	1958	1978	1987	19
				1959			1929					1987	20
		1977											21
						1933							22
		1977	1929	1959		1933	1929	1940	1929	1958	1978		23
										1958	1978		24
		1977	1929	1959			1929	1940	1929	1958	1978		25
1929							1929	1940	1929				26
													27
													28
1929							1929	1940	1929				29
						1933				1958			30
										1958			31
										1958			32
										1958			33
													34
													35
						1933							36
			1929	1959									37
				1959	1974								38
			1929	1959	1974								39
1929						1933			1929				40
1929						1933							41
													42
1929						1933							43
1929									1929				44
1929			1929	1959			1929	1940	1929	1958			45
Account 2.—Personal Income and Outlay Account													
				1959									46
													47
						1933	1929						48
						1933	1929						49
							1929						50
							1929						51
				1959				1940					52
				1959				1940					53
													54
	1946	1977		1959			1929	1940	1929				55
			1929	1959			1929	1940	1929				56
			1929										57
		1977											58
	1946												59
							1929					1987	60
							1929					1987	61
													62
													63
	1946	1977		1959		1933	1929	1940	1929			1987	64
1929				1959									65
1929	1946			1959			1929	1940	1929				66
1929							1929	1940	1929				67
	1946												68
				1959									69
1929		1977		1959		1933	1929	1940	1929			1987	70
1929	1946	1977		1959		1933	1929	1940	1929			1987	71

Table 1.—Summary National Income and Product Accounts:

(Year shown is initial)

Line		Commodity Credit Corporation	Federal Deposit Insurance Corporation	Federal Savings and Loan Insurance Corporation	Federal Home Loan Bank Board Revolving Fund	Credit Union Share Insurance Fund	Pension Benefit Guaranty Corporation	Panama Canal Commission	Federal Crop Insurance Corporation Fund	National Flood Insurance Fund
		Classification of government agencies								
		Account 3.—Government Receipts and Expenditures Account								
1	Personal tax and nontax payments	...	...	...	...	...	...	...	...	...
2	Corporate profits tax liability	...	...	...	...	...	...	...	...	...
3	Indirect business tax and nontax liability	1933	1933	1933	...	1971	...	...	...	...
4	Contributions for social insurance	...	...	...	...	...	1974	1979	...	...
5	Employer	...	...	...	...	...	1974	1979	...	...
6	Personal	...	...	...	...	...	...	1979	...	...
7	GOVERNMENT RECEIPTS	1933	1933	1933	...	1971	1974	1979	...	...
8	Purchases of goods and services	1933	1933	1933	1947	1971	1974	1979	1949	1969
9	Transfer payments	...	...	...	...	...	1974	1979	...	...
10	To persons	...	...	...	...	...	1974	...	...	...
11	To foreigners (net)	...	...	...	...	...	...	1979	...	...
12	Net interest paid	...	...	...	...	...	...	...	...	...
13	Interest paid	...	...	...	...	...	...	...	...	...
14	To persons and business	...	...	...	...	...	...	...	...	...
15	To foreigners	...	...	...	...	...	...	...	...	...
16	*Less:* Interest received by government	...	...	...	...	...	...	...	...	...
17	*Less:* Dividends received by government	...	...	...	...	...	...	...	...	...
18	Subsidies	1933	...	...	...	...	...	...	...	1969
19	*Less:* Current surplus of government enterprises	1933	1933	1933	1947	1971	1974	1979	1949	1969
20	*Less:* Wage accruals less disbursements	...	...	...	...	...	...	...	...	...
21	Surplus or deficit (−), national income and product accounts	1933	1933	1933	...	1971	1974	1979	...	...
22	Federal	1933	1933	1933	...	1971	1974	1979	...	...
23	State and local	...	...	...	...	...	...	...	...	...
24	GOVERNMENT EXPENDITURES AND SURPLUS	1933	1933	1933	...	1971	1974	1979	...	...
		Account 4.—Foreign Transactions Account								
25	Exports of goods and services	...	...	...	...	...	...	...	...	...
26	Capital grants received by the United States (net)	...	...	...	...	...	...	...	...	...
27	RECEIPTS FROM FOREIGNERS	...	...	...	...	...	...	...	...	...
28	Imports of goods and services	...	...	...	...	...	...	...	...	...
29	Transfer payments to foreigners (net)	...	...	...	...	...	...	1979	...	...
30	From persons (net)	...	...	...	...	...	...	...	...	...
31	From government (net)	...	...	...	...	...	...	1979	...	...
32	From business (net)[3]	...	...	...	...	...	...	...	...	...
33	Interest paid by government to foreigners[4]	...	...	...	...	...	...	...	...	...
34	Net foreign investment	...	...	...	...	...	...	1979	...	...
35	PAYMENTS TO FOREIGNERS	...	...	...	...	...	...	...	...	...
		Account 5.—Gross Saving and Investment Account								
36	Gross private domestic investment	...	...	...	...	...	...	...	...	...
37	Net foreign investment	...	...	...	...	...	...	1979	...	...
38	GROSS INVESTMENT	...	...	...	...	...	...	1979	...	...
39	Personal saving	...	...	...	...	...	1974	1979	...	...
40	Wage accruals less disbursements	...	...	...	...	...	...	...	...	...
41	Undistributed corporate profits with IVA and CCAdj	...	...	...	...	...	...	...	...	...
42	Undistributed corporate profits	...	...	...	...	...	...	...	...	...
43	IVA	...	...	...	...	...	...	...	...	...
44	CCAdj	...	...	...	...	...	...	...	...	...
45	Capital consumption allowances with CCAdj	...	...	...	...	...	...	...	...	...
46	Government surplus or deficit national income and product accounts	...	1933	1933	...	1971	1974	1979	...	...
47	Capital grants received by the United States (net)	...	...	...	...	...	...	...	...	...
48	GROSS SAVING AND STATISTICAL DISCREPANCY	...	...	...	...	...	...	...	...	...

1. The title of this line has been changed from "Interest paid by government to persons and business" to "Interest paid by government" to reflect the reclassification of interest paid by Federal Government to foreigners.

2. The title of this line has been changed from "Interest paid by consumers to business" to "Interest paid by persons" to reflect the definitional revision that recognizes interest payments by persons to government.

3. This line is added to reflect the change in the treatment of nonresident taxes.

4. This line is eliminated by the definitional revision that reclassifies interest paid by Federal Government to foreigners.

NOTE.—The format and titles used for this table do not reflect the redesigned table formats that will be introduced for this comprehensive revision. The redesigned table formats will be described in a subsequent article.

IVA Inventory valuation adjustment

CCC Commodity Credit Corporation

CCAdj Capital consumption adjustment

Items Affected by Definitional and Classificational Revisions—Continued

[year of revision]

Treatment of government receipts			Treatment of international transactions			Treatment of business incomes and expenses							Line
Redefine government sales and personal nontaxes	Recognize interest paid by persons to government	Recognize court-mandated escrow accounts	Reclassify interest paid by Federal Government to foreigners	Record nonresident taxes as transfer payments	Record exports and imports of services and interest on a gross basis	Reclassify CCC commodity loans	Reclassify bad debt losses as financial transactions	Reclassify capital gains distributions	Remove capital gains from brokerage charges	Capitalize monetary interest on own-account construction	Recognize capital consumption for abandoned nuclear power plants	Recognize personal-injury trusts as corporate businesses	
Account 3.—Government Receipts and Expenditures Account													
1929				1959									1
													2
		1977											3
													4
													5
													6
1929		1977		1959									7
1929						1933			1929				8
													9
													10
				1959									11
		1977											12
													13
													14
													15
		1977											16
													17
													18
						1933							19
													20
		1977				1933			1929				21
		1977				1933							22
		1977							1929				23
1929		1977		1959									24
Account 4.—Foreign Transactions Account													
				1959	1974								25
													26
				1959	1974								27
			1929	1959	1974								28
				1959									29
				1959									30
				1959									31
				1959									32
			1929										33
				1959									34
				1959	1974								35
Account 5.—Gross Saving and Investment Account													
						1933				1958			36
				1959									37
				1959		1933				1958			38
		1977		1959		1933	1929	1940	1929			1987	39
													40
		1977		1959			1929	1940	1929	1958	1978	1987	41
		1977		1959			1929	1940	1929	1958		1987	42
													43
										1958	1978		44
										1958	1978		45
		1977				1933			1929				46
													47
				1959		1933				1958			48

Text continues from p. 25.

as imports of services and of factor income, respectively. Correspondingly, receipts for services provided and for interest paid by U.S. affiliates to their foreign direct investors will be recorded as exports of services and of factor income. Currently, payments by U.S. direct investors to their foreign affiliates are netted against receipts from these affiliates and are recorded as exports. Receipts by U.S affiliates from their foreign direct investors are netted against payments by U.S. affiliates to these investors and are recorded as imports. This change, which will provide a more realistic portrayal of international transactions in services and factor incomes, will not affect net exports or GNP, because exports and imports will be raised by equal amounts. Similarly, the change will not affect net interest or charges against GNP.

Treatment of business incomes and expenses

Reclassify CCC commodity loans.—Back to 1933, defaults on CCC commodity loans will be treated as Federal Government nondefense purchases; disbursements and repayments of CCC commodity loans will be treated as financial transactions and thus will be excluded from the NIPA's. Currently, disbursements are treated as nondefense purchases, and repayments as nondefense sales; defaults are not recorded.

The change in treatment will recognize that the intent of the CCC program is to provide short-term loans to aid the cash-flow position of farmers and to support farm prices; the current treatment reflects the fact that for many years these commodity loans were seldom repaid. The treatment of the disbursements and repayments of these loans as financial transactions will conform the treatment of CCC loans to that of all similar loans in the NIPA's.

The effects of the changed treatment are largely those of timing: Loan defaults will increase nondefense purchases and reduce the change in farm inventories at the time of the default; as financial transactions, loan disbursements and repayments will affect neither nondefense purchases nor farm inventories. Thus, the change will affect nondefense purchases, change in farm inventories, and the Federal Government surplus or deficit only in periods when there are loan defaults. GNP and charges against GNP will not be affected.

The reclassification also will result in one additional difference. When a loan default is recorded, the increase in nondefense purchases will reflect the value of commodities forfeited as measured by the loan rate—that is, the amount received by the farmer when the disbursement was made. Currently, when commodities are put under loan or are redeemed, they are valued in the NIPA's at the open market price at that time: An adjustment for the difference between the market price and the loan rate is added to nondefense purchases and to the current enterprise surplus. The change will recognize the loan rate as the actual market price so that no "valuation" adjustment will be necessary.

Reclassify bad debt losses as financial transactions.—Back to 1929, losses resulting from bad debts will be reclassified as financial transactions, and they will not be recognized as expenses in calculating domestic business incomes. Currently, the NIPA treatment of bad debt losses, except for those losses recorded in rest-of-the-world profits, reduces the income of the lender by the amount of the actual loss in the period that the loan is determined to be uncollectible, and it increases the income of the defaulter by the same amount in that period.[6]

The change will treat losses from bad debts as asset transfers, a type of financial transaction that is excluded from the NIPA's.

The changed treatment will have two effects. First, it will increase the incomes of lenders. Second, it will reduce the incomes of the defaulters by eliminating the adjustment (defaulters' gain) now made to recognize a transfer of income from the lender to the defaulter. The change will only affect GNP to the extent that the imputed financial service charge of mutual financial institutions is affected by any change in corporate profits, which are deducted in calculating the imputation.[7] Charges against GNP also will be affected to the extent that there is a change in the imputed financial charge; in addition, charges against GNP will be affected because of inconsistencies in the source data currently used to estimate the losses to the lenders and the gains attributable to the defaulters. Personal income, and thus personal saving, will be reduced to the extent that defaults are on personal loans (business transfer payments) and on home mortgages (rental income of persons) and to the extent that defaults by sole proprietorships and partnerships exceed their loan losses.

The changed treatment will not affect the calculation of rest-of-the-world profits (both exports and imports). These profits are reduced by the amount of any bad debt expenses; however, because of a lack of source data, these losses are not currently adjusted so that they are deducted in the period a loan is determined to be uncollectible, and no corresponding defaulters' gain is made.

Recognize capital gains distributions of regulated investment companies as dividends.—Back to 1940, capital gains realized by regulated investment companies and paid to investors in the form of dividends will be classified as dividends; currently, they are not included in the NIPA's.

The change will conform the treatment of these companies to the principle that the source of the income underlying dividend payments—that is, whether the income arises from current production or from capital gains—is not a criterion when considering the treatment of such payments.

The change will not affect corporate profits, but it will reduce undistributed corporate profits (business saving) and increase dividends paid to persons (personal saving) by the same amount; GNP will not be affected. The change also will increase the imputed interest paid by the regulated investment companies because property income received—that is, interest, dividends, and rent—will increase by the amount of the capital gains. The increase in imputed interest will increase GNP and charges against GNP to the extent that it affects the imputed financial service charge of persons, foreigners, and governments.

Remove capital gains from brokerage charges.—Back to 1929, the capital gains element will be removed from the imputed financial service charge of

6. For additional information on the treatment of bad debts, see U.S. Department of Commerce, Bureau of Economic Analysis, *Corporate Profits: Profits Before Tax, Profits Tax Liability, and Dividends*, Methodology Paper Series MP-2 (Washington, DC: U.S. Government Printing Office, May 1985): 19–20.

7. For additional information on imputed service charges, see U.S. Department of Commerce, Bureau of Economic Analysis, *Personal Consumption Expenditures*, Methodology Paper Series MP-6 (Washington, DC: U.S. Government Printing Office, June 1990): 9–13.

domestic security dealers, thus reducing corporate profits, charges against GNP, and GNP.[8] These dealers do not charge explicit commissions; instead, their income is the "spread," or the difference, between the cost of acquiring a security and its sales value. Currently, the imputed value of the dealer's commission, except for those included in exports, contains a capital gain (or loss) because it is measured as the difference between the cost of the security on the date of acquisition and its value on the date of sale. This change will measure the imputed value of these commissions as the "spread" on the date the security is sold, thus eliminating the capital gain. In the process of preparing the estimates of these capital gains, it was found that the imputed value of services had previously been made only for individual domestic purchasers and not for other domestic purchasers, such as nonprofit institutions, private noninsured pension plans, life insurance carriers, investment companies, and State and local governments. The expansion of the imputation to include these other purchasers will increase some components of PCE, government purchases, and corporate profits.

Capitalize monetary interest paid by utility companies on own-account construction projects.—Back to 1958, monetary interest capitalized by utility companies on own-account construction projects will be added to investment in nonresidential structures. Currently, own-account investment in nonresidential structures by utility companies excludes this interest, which is instead deducted as a current expense in corporate profits. (The NIPA's will continue to omit the amount of interest that utilities impute in compiling their estimate of capital expenditures for new plant and equipment for financial accounting purposes.)

The change will recognize monetary interest payments as a cost of production and will conform the treatment of this type of interest to that of interest capitalized on construction projects of other businesses. It will reverse one part of a decision, made in the comprehensive revision of 1965, to exclude both monetary and imputed interest payments from investment in nonresidential structures.

The changed treatment will raise investment in nonresidential structures, thus raising GNP. In charges against GNP, corporate profits will be increased by the difference between the interest payments, which will be capitalized rather than treated as a current expense, and the depreciation on these payments, which will be added to capital consumption.

Recognize capital consumption for abandoned nuclear power plants.—Back to 1978, capital consumption will be increased to reflect the abandonment of private nuclear power plants, either at the date of abandonment or at the time the firm deducts the loss of the plant on its Federal income tax return. (This date might not be when construction activity stops, because, in many cases, construction is later restarted or the plant (or a part of it) is converted to nonnuclear use.) Currently, the historical costs of such abandonments are deducted as business expenses for tax purposes. This change gives abandoned nuclear power plants the same treatment as that currently used for capital goods that are destroyed accidentally.

The change will increase capital consumption allowances with capital consumption adjustment (CCAdj) by the current cost of the actual plant abandonments. Corporate profits before tax will not be affected, but the CCAdj will be increased by the difference between the current cost and the historical cost of the abandonments. Charges against GNP will be increased by the historical cost of the abandonments.

Recognize personal-injury trusts as corporate businesses.—Personal-injury trusts, created by businesses to handle future settlements arising from court decisions, will be recognized as nonprofit institutions serving business and included in the NIPA corporate sector. BEA has identified the creation of these trusts beginning in 1987.

This change will recognize the formation of the trusts and provide the accounting mechanism to transfer the settlements to persons. When such a trust is funded, corporate profits will not be affected, because the funding reduces the profits of the corporation creating the trust and increases the "profits" of the trust. When the trust makes a payment to settle a claim, corporate profits will be reduced, and business transfer payments to persons will be increased. Currently, corporate profits are reduced at the time of funding.

The changed treatment will raise business transfer payments to persons, thus raising personal income. GNP and charges against GNP will not be affected.

8. As noted for the change related to bad debt losses, the resulting revisions to corporate profits of mutual financial institutions will also affect their imputed service charge.